



PRIMER

Indiana Teachers' Retirement Fund
Active and Retired Members
JUNE 2005



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Letter from the Executive Director

William E. Christopher
1999-2004



Over the past five years, I have traveled across Indiana speaking about retirement and all the decisions that need to be made when deciding to retire. Having personally decided to retire effective December 2004, here in April 2005 I am finally making the break from my work as Executive Director of the Indiana Teachers' Retirement Fund. At last, I will have the freedom to do things on my schedule, of course after consultation with my spouse.

I suppose the most difficult part of retiring is not unlike when one changes jobs during a professional career. Many things are difficult to relinquish. For example, daily interaction with colleagues, meeting deadlines and handing to others work that is left to do.

At the Teachers' Retirement Fund, there are issues of modernization that all members must continue to support to completion. Supporting daily valuation of member accounts and investment changes will require both the members' help and careful study. Access to modern technology for routine changes like addresses and questions is becoming essential. Thus, there will continue to be new ways to provide service that will require innovation and advanced planning and development.

The most important issue that all active and retired members must continue to watch and be concerned about is the unfunded liability of the Fund. The State of Indiana liability is now over 8 billion dollars. The liability has accumulated over the life of the Fund and is not a new phenomenon. The liability is not something that should be blamed on any one person or group. The concern is that payday is quickly arriving. Ten years from now, this liability will require State yearly payments to the Fund in excess of one billion dollars. That level of payment will continue for approximately twenty years before significant decreases are realized. This issue will demand constant planning, periodic review and instituting a payment plan that is manageable and long range. The members of the Indiana Teachers' Retirement Fund must always be concerned about the integrity of the Fund.

Finally, I thank the membership of the Indiana Teachers' Retirement Fund for their support and continued interest during my years of work with the Fund. I also want every member to know that the Fund has a competent, well-trained staff that cares about your success as an active teacher or retiree. Thank you for making my life a joy through service to you.

Annuity Savings Account 101

By: Shelley Horner

Every non-retired member of the Indiana Teachers' Retirement Fund has an Annuity Savings Account (ASA) which allows them to allocate among five investment options offered by the Fund. At retirement, the ASA balance is comprised of the defined contribution portion of the retirement. As this portion is becoming more integral to the retirement plan, this article offers information to assist you in making decisions regarding your ASA.

During a member's teaching career, mandatory contributions of 3% are made to the ASA. Mandatory contributions are reported as post-tax if paid by the member and pre-tax if paid by the employer. Contributions paid by the employer are referred to as pickup contributions.

All members may contribute up to 10% of their salary. While voluntary post-tax contributions are available to all members, voluntary pre-tax contributions are only available to those members who qualify.

Upon termination of Indiana teaching service, options for dispersing the ASA will depend on the members' vesting status. Vesting in Indiana requires at least 10 years of Indiana teaching service. If vested, you may leave your ASA with the Fund until you are qualified by age to receive a retirement benefit or you may elect to withdraw the entire balance. If you withdraw the balance, payment may be made directly to you or to another tax-deferred retirement account. If you are not yet vested, you should withdraw your balance within 10 years of terminating your service in Indiana, as your account will not accrue any additional interest.

When applying for retirement, you must decide how your Annuity Savings Account will be distributed. Listed are available alternatives:

- The default alternative allows the member to receive a monthly annuity payment for life. At retirement, the ASA balance is calculated to provide a lifetime benefit using an assumed 7.5% rate of return. This lifetime benefit is paid to the member and co-survivor as designated.

- A member may choose to withdraw the entire account balance at retirement. Payment may be made directly to you or to another tax-deferred retirement plan. **Note: If payment is made directly to you, TRF is required to withhold 20% federal income tax. Additionally, direct payment is subject to state income tax and/or an additional 10% federal tax penalty.**

- Some members have an existing pre-86 balance. This balance consists of all employee contributions made through 1986. In January 1987, employer pickup contributions became available. Under this alternative, the member receives a tax-free payment in the amount of the pre-86 balance and draws a monthly lifetime annuity payment from the remaining balance.

- In 1999, the Indiana General Assembly approved measures allowing members to defer ASA distributions. Under this alternative, a member may elect to receive their monthly pension at the time of retirement and defer distribution of the ASA until a later date. The member may also elect to receive the pre-86 balance as a tax-free payment and defer distribution of the account balance.

(Continued on page 4)

Introducing Email Management

By: Katrina Stuckwisch



Email Management is our newest communications software. This option is now offered on our website when "Live Help" is not available. Email Management has features to route, track and deliver email communications safely and effectively.

Your inquiry will be routed to the appropriate division, thereby ensuring fast, relevant responses to all inquiries. The assigned ticket identification number allows Email Management to track all history related to a specific query. As a result, your email is retrieved quickly and a response is offered immediately. Most importantly, the possibility of emails slipping through the cracks is eliminated.

To access Email Management, simply click the "Live Help" icon located on our homepage. You will be prompted to complete a survey with general information about your account. Once the survey is submitted, system software will forward an automatic acknowledgement to your email address. The acknowledgement will also include an assigned ticket identification number. Please use this number in future communications.

We hope Email Management proves to be beneficial to your needs. Once you experience Email Management, give us your feedback and let us know what you think. Please know we will continue to identify ways to enhance our service delivery systems.

NEWLAND 'S NOTES

By: Robert Newland, Deputy Director/Chief Investment Officer



While some of my previous articles have been about investment management costs, specifically, what we pay our money managers, other disbursements play an integral part as well. To ensure we efficiently administer *all* costs, we undergo an annual review of our recompense structure. The Cost Effectiveness Management (CEM) firm visits the Teachers' Retirement Fund each year and issues a report regarding how we compare in a universe of public pension funds. Typically, concentrated areas include the Fund's defined benefit investment operations and benefit administration.

Benefit administration has generally fared well and that same trend continued in Calendar Year 2003. While the report features a number of accomplishments, a few statistics are exemplary. Please note the following:

- Total adjusted administration was \$56 per active member and annuitant (retiree) compared to \$84 for our peer group;
- We administered to 2,260 active members and annuitants per full-time equivalent (FTE) staff while our peer group's average was 1,827;
- The average speed of answer for our call center was 39 seconds compared to 90 seconds for our peer group;
- A variety of forms and self-service options are available on our website compared to 50% of our peers who simply offer forms online; and
- A self-service calculator is available online for immediate access to benefit estimates (approximately 75% of the peer group offers this service).

Defined benefit investment operations also performed well. Overall, costs to manage the investment division were \$12.3 million or 20.3 basis points of average assets under management. The benchmark cost was \$16 million or 26.4 basis points. In addition to money management, the report also included costs for administrative staff, trustee and bank custody, consulting, performance measurement and audit costs. Interestingly, the lion's share of all costs derives from money management, i.e. \$11.4 million or 18.9 basis points. However, even in this area, our costs were approximately \$2.8 million less (4.7 basis points) than the median group. We also fared well in other areas (about \$1 million less in expenditures or 1.5 basis points) than the median group.

A few additional tidbits in the CEM report illustrated how our investment managers outperformed their benchmarks in all of our asset classes. Our 5-year implementation risk (risk coming from active management), was 1.1% below the group median of 1.9% and our policy return (a *pro forma* return from our asset allocation) was in the top quartile of the peer universe for the last 5 years.



TRF WEB NEWS

By: Therese Koers

Anthem Health Insurance for Retired Members

Detailed information about Anthem group health insurance is now available on our website. You may also view the latest brochure, application and frequently asked questions.

Survivors of TRF Members

The Teachers' Retirement Fund understands how difficult it is to cope with the loss of a loved one. To better assist you, we've compiled valuable information and placed it on our website. Topics include entitlements, your rights as a designated beneficiary, co-survivorship, how to submit a claim and much more. Please see our home page for this important information.

Quarterly Statement On-Line Posting Schedule

We now retain an archive of the last four quarters and all year-end statements. Updated Quarterly Statement information will be available on-line on the following dates:

- April 16
- July 16
- October 16
- January 16

Contacting The Fund

Direct: (317) 232-3860
Toll Free: (888) 286-3544

Fax Number: (317) 232-3882

TDD/TTY: (317) 233-3306

Director's Office: (317) 232-3869

Website: www.in.gov/trf

Email: trf@trf.in.gov

Indiana Teachers' Retirement Fund
150 West Market Street, Suite 300
Indianapolis, Indiana 46204-2809

Presorted
Standard
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Permit No. 8892
Indianapolis, IN 46204



Mitch Daniels, Governor

Robert D. Newland, Interim Executive Director

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The *Primer* is published by the Fund to update members on Fund news and to give general information about Fund benefits. Specific information is available in the Active Member's Handbook, the Retiring Member's Guidebook or by contacting the office.

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ASA 101 (continued)

By Shelley Horner

Upon the death of a member, distribution of the ASA will be determined by status in the Fund. For a retiree, a final payment may be due to the estate or the designated beneficiary. The presence of a final annuity payment is determined by a number of factors, primarily the ASA alternative, pension option and length of time since retirement. Please note the following:

- If a monthly annuity/co-survivor option is chosen, the designated co-survivor will continue to receive monthly annuity payments for the remainder of their lifetime;
- If the ASA balance is distributed in a lump sum payment at the time of retirement, the account is exhausted and no payments will be disbursed to the beneficiary;
- If distribution of the ASA is deferred, the designated beneficiary will receive an annual payment for 5 years or a one-time lump sum disbursement of the balance;
- If Option A3 is chosen, the entire annuity savings account balance will be recovered in monthly annuity payments. If the member passes away prior to recovery, the remaining ASA balance will be paid to the designated beneficiary; and
- In all instances, a minimum guarantee is in effect, which states a retired member or their beneficiary will receive benefits in an amount equal to the ASA balance at retirement.

For a non-retired member, the entire ASA balance will be shared equally among all designated primary beneficiaries. If primary beneficiaries pre-decease the member, the balance will be paid equally to all surviving contingent beneficiaries. If there are no surviving beneficiaries, the balance in the ASA will be made payable to the estate and distributed with remaining assets.

It is important to keep beneficiary information current at all times. If you need to make changes, you may submit a "Member Data Change" form. This form is included with your Quarterly Statement or may be found on our website.

For more information on Annuity Savings Accounts, to access forms, or to calculate a retirement estimate, please visit our website at www.in.gov/trf.